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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001292

SIPDIS

STATE FOR EAP, EB
BANGKOK FOR AGCOUNSELOR
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
CINCPAC FOR FPA

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SUBJECT: BURMA: BREADBASKET AND BASKET CASE

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

1. (C) Summary: Persistent reports of unrest at food warehouses and distribution points in Burma suggest the government ration system may be breaking down. If true, then food problems will only become worse for Burma's poorest in coming months as inflation accelerates, the kyat continues its free-fall, and corruption corrodes the government's ability to deliver basic commodities at subsidized prices. End summary.

Supply is Up, So is the Price

2. (SBU) Burma does not have a food shortage. While government statistics are always suspect, the information available suggests that Burma has consistently produced as much or more rice per capita as any other country in the world. According to local numbers compiled by the U.S. Department of Agriculture, Burma annually produces about 800 pounds of rice per person, i.e., as much as Thailand, and more than either Vietnam or Bangladesh.

3. (SBU) This year, Burma seems to be headed again for a relatively good rice crop. While heavy rains have damaged crops in central Burma and in the Irrawaddy delta, Burma nevertheless appears headed for a wet season harvest that is roughly equivalent to last year's 15 million tons.

4. (C) Stocks are also allegedly ample. By government fiat, all rice merchants must retain a 120-250 bag surplus (depending on each merchant's sales volume) that the regime can order onto the market at a subsidized price through the Rice Millers Association. In addition, government officials claim to have "strategic" reserves for use during national emergencies, though there are real questions as to how large those strategic stocks are -- or if they even exist.

The Price of Tea in Burma

5. (C) Despite this evidence of adequate supply, there have been persistent tales of hardship among poorer families and rumors of sporadic unrest at rice distribution centers across the country. These appear to be the result of three primary problems. The first is wage and price pressures generated by decades of bad economic management by the government. Forty years of military rule has crippled economic activity, while the government has supported itself in recent years essentially with money printed at the Central Bank. For workers, this translates into a combination of unemployment and inflation that has held down wages and boosted prices. Over the past 12 months, retail prices in Rangoon have increased by approximately 60 percent, while wages have remained stagnant. Right now rice in the open market in Rangoon is going for 300 to 350 kyat per pyi (2.2 kilograms), while factory workers make on average only 300 to 500 kyat per day, government pensioners only 600 to 800 kyat per month, and an average laborer or street merchant perhaps 100 to 200 kyat per day.

6. (C) The second factor is a poorly functioning public ration system, which covers politically sensitive items like rice, cooking oil (imported palm oil from Malaysia), gasoline, and soap. Whenever rice prices begin to rise, the government orders the Rice Millers Association to work with local township authorities to determine the amount of rice needed and then procure it at a subsidized price set by the central government. The township authorities are then responsible for distribution at this below market price to local families.

7. (C) However, even the government's subsidized prices (recently raised from 100 to 130 kyat per pyi for rice) are too high for some. There is also no needs test; the ration is available to all citizens regardless of their economic circumstances. Consequently, many who do not need the subsidized rice claim their ration anyway to resell on the open market, exhausting stocks. Moreover, because distribution centers are disorganized in checking identification for disbursement of subsidized cooking oil, a

blossoming industry has emerged for those who are able to get multiple rations to resell for a handsome profit. Finally, supplies are uncertain thanks to corruption among the township authorities. We have heard of two recent cases where the police arrested local authorities for lying about availability of subsidized rice so that they could resell it in bulk on the black market.

18. (C) The third factor in the food problem is the obstacles to the domestic rice trade that the government imposes in an effort to stem the border trade in rice. Earlier this summer, for instance, rice shipments from Magwe Division to northern Rakhine State were reportedly cut off entirely in an effort to stop cross-border sales to Bangladesh that are stimulated by the subsidized prices in Burma. The result is local shortages, usually in the border regions adjacent to China, India, Bangladesh, and Thailand.

Comment

19. (C) The net result for the government of this system of rations, subsidies, and trade barriers is a highly politicized food distribution system that could backfire as inflation continues to rise, and truly steep differentials emerge between open market and subsidized prices. Thus far, only the poorest in Burma have suffered very much. However, if the system does break down and the government does find itself incapable of keeping its implicit promise to deliver food at "reasonable prices," especially in the major urban areas, then real trouble could result. The government is gambling that it can maintain control of the ration system until the wet season harvest in October and November. If as predicted the harvest is adequate, then the simple increased availability of food should put a damper on rice price pressures for a few months. However, if the harvest is below expectations, there could be more widespread difficulties.

End comment.

Martinez